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081524Z Jun 04

C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 004670

SIPDIS

E.O. 12958: DECL: 06/06/2014

TAGS: [EFIN](#) [EAID](#) [IZ](#) [JO](#)

SUBJECT: JORDAN'S FINANCE MINISTER DISCUSSES IMF VISIT,
IRAQI ASSETS, AND CABINET BUDGET MANEUVERS

REF: A. AMMAN 04330

[1](#)B. AMMAN 04275

Classified By: Amb. Edward Gnehm, Jr., Reasons 1.5 (b) and (d)

[1](#)1. (C) SUMMARY: Finance Minister Abu Hammour related to the Ambassador June 2 that the visiting IMF team said Jordan would graduate from the IMF program "with honors." Although the IMF had raised its growth estimate for Jordan for 2004 to 5.5%, he said it could just as easily have been 6%. Both the Minister and the IMF team were happy with Jordan's inflation rate, which should approach 3% by the end of the year. Abu Hammour also related the background of some of his battles within the cabinet and with the King over controlling government spending, taking special pride in a victory over the Planning Minister. Abu Hammour confirmed the Saudi offer of an oil grant of 50,000 b/d to Jordan and reported the possibility of a secret joint \$1 billion Kuwaiti/UAE grant or soft loan over a three year period. Regarding the requirements for disbursement of U.S. aid, Abu Hammour said that all are being met and that he expected a letter from the IMF by the end of June confirming that Jordan had met its 3rd Review requirements. He added that Jordan will continue to need both future grants and technical assistance. Finally, on Iraqi assets, the Minister repeated that he expected all outstanding claims against frozen Iraqi assets to be completed by the end of June and the remaining balance transferred in early July. END SUMMARY.

KUDOS FROM THE IMF AND KEEPING THE MILITARY AT BAY

[1](#)2. (C) On June 2, Jordan's Finance Minister, Mohammad Abu Hammour, told the Ambassador that the IMF team that had visited Jordan (Ref A) was "so happy" with Jordan's economic progress. He said that the IMF had set a target for Jordan for the 1st quarter of a Jordanian dinar (JD) deficit of JD 140 million (\$ 196 million). Jordan instead had registered a budget surplus of JD 139 million (\$195 million), a turn-around of JD 279 million (\$390 million).

[1](#)3. (C) Abu Hammour was particularly pleased that he had succeeded in cutting JD 15 million (\$21 million) in military spending in his budget. He related a story that, after the government had implemented a salary increase for the military and for civil servants, the head of the Jordanian military had come to him asking for JD 40 million (\$56 million) more. Abu Hammour had agreed but told him he would have to cut his overall spending by the same amount, as specified by the budget law. After a bargaining session, Abu Hammour had succeeded in holding off the request for the additional JD 40 million, in exchange for no further cut. In addition, the military managed a 10% increase in salaries without any new funds from the Finance Ministry.

[1](#)4. (C) The IMF team had told Abu Hammour that Jordan would graduate from its IMF program on July 2 "with honors." The IMF had raised its estimate of real GDP growth for Jordan for 2004 from 5% to 5.5% but could just as easily have raised it to 6%, according to Abu Hammour. Indeed, the 1st quarter of 2004 had registered real growth of 7%, albeit partly due to effect of the Iraq War on the comparable 2003 figures. Abu Hammour said that he did not want the IMF to use the 6% figure because he preferred to be cautious.

Inflation Not a Concern

[1](#)5. (C) Turning to inflation, Abu Hammour said the 3.5% rate for April had been affected by higher prices in advance of the GST which went into effect in that month. He asserted that many businesses had raised their prices by more than the additional 3% increase in the GST, partly due to currency fluctuations. Fortunately, prices were already beginning to come down and both he and the IMF expected them to reach 3% to 3.2% by the end of the year, commenting that this was even close to the EU convergency level.

[1](#)6. (C) Abu Hammour said he did not expect further price rises to be needed. In the first four months of the year,

tax revenues had reached JD 80 million (\$112 million) although the government had estimated revenues for the whole year at only JD 100 million (\$140 million). Unification of the GST had also been important and had brought in another JD 40 million (\$56 million), again higher than expected. On the other side of the equation, imports were also up in the 1st quarter, largely due to higher oil prices.

A Temporary Break for Tourism

17. (C) In addition, the current account registered a 5% surplus, partly thanks to a 30% increase in tourism receipts. He thanked the USAID-supported AMIR program for its help with Jordan's tourism sector strategy. He also mentioned that he had met with Tourism and Antiquities Minister Alia Hattough-Bouran, who had requested that the GST be cut from 16% to 0% for hotels. Abu Hammour had said no, not wanting to create market distortions. However, King Abdullah had over-ruled him. Nevertheless, Abu Hammour had "minimized his losses" by convincing the King to cut the GST to only 7% and to keep the reduction for only one year.

Foreign Aid

18. (C) When asked about the status of the Conditions Precedent (CP) for the remaining \$200 million of the USAID FY 2003 cash transfer for emergency assistance, Abu Hammour said that the IMF team had said Jordan had met all its targets by a wide margin. The next step would be the IMF team's report, to be distributed by June 13. The report could then be approved by the IMF without a Board meeting unless one of the board members requested a meeting. Once the IMF management sent a letter certifying that Jordan had met its final CP, the cash transfer could then be authorized. Abu Hammour was not in a hurry for the transfer and said he did not necessarily need the money in June, thanks to the higher-than-expected revenues. He would prefer the transfer take place in July; this would make him less of a target for other ministers seeking more funds for their ministries. None of this meant that Jordan did not still have demands on its revenues. Abu Hammour said the higher oil prices meant the government had to pay an additional JD 220 million (\$308 million) in fuel subsidies. For every one dollar increase in oil prices, the government paid an additional JD 22 million (\$30.8 million) in subsidies.

19. (C) Abu Hammour confirmed earlier reports that Saudi Arabia had agreed to supply Jordan with a grant of 50,000 barrels of oil per day. In addition, during his recent visit to Kuwait, the King had negotiated with the Kuwaitis and come away with a plan under which Kuwait and the UAE would jointly give Jordan a \$1 billion grant/soft loan at a very low rate. Although the grant/loan would be for a three year period, the funds would be given to Jordan up front. Abu Hammour asked that this information be closely-held.

Loose Lips...

110. (C) Abu Hammour then related the story of how the news of the Saudi oil grant had been made public. The Prime Minister had told the Cabinet that Jordan would be receiving a grant from Saudi Arabia but instructed them not to make it public. Unfortunately, the next day, Government Spokesperson Asma Khader announced it in her press conference. At the next session, Abu Hammour asked her why she had done so, perhaps jeopardizing the deal because the Saudis wanted it kept private. After she replied that she could not lie to journalists, he told her that making this deal public could also affect a possible renewal of the deal next year. As Abu Hammour had feared, immediately after news of the Saudi deal had been made public, Abu Hammour began receiving further requests from Ministers and MPs for increased spending. He hoped that the Kuwait/UAE deal could remain closely held.

Tussles with the Planning Minister

111. (C) Abu Hammour related that Planning Minister Bassem Awadallah had been upset about having "his" Social and Economic Transformation Fund, containing USAID funding, integrated into the overall budget. Abu Hammour related that this decision dated back to a Finance Ministry plan for financial management for the next three years which was drafted last November. The Ministry had decided that it would need technical assistance to develop and implement the plan. Abu Hammour expected Awadallah to claim the proposal was too biased so Abu Hammour had decided the technical assistance should consist of both the IMF and the World Bank,

with the latter presumably more favorably disposed to Planning Ministry concerns. This seemed to calm the waters.

¶12. (C) Nevertheless, just prior to the World Economic Forum held at the Dead Sea in May, Awadallah had suggested in a Cabinet meeting that the GOJ announce something extraordinary at the WEF like, for example, eliminating the income tax. The Prime Minister had laughed and turned to Abu Hammour for his reaction. Abu Hammour said that he could eliminate the JD 200 million/year tax (\$280 million) but would have to close the Ministry of Planning which spends the same amount. The following day Awadallah circulated a letter opposing the mission by the IMF/World Bank because it could develop recommendations which would take away Ministry of Planning functions. Abu Hammour replied that it was too late to call off the mission.

What the Finance Ministry Needs over the Next Five Years

¶13. (C) Looking ahead, Abu Hammour said that Jordan and the Finance Ministry would continue to need further grants over the next five years. In addition, the government and the ministry would need more technical assistance, particularly in the areas of customs and border management. Abu Hammour was very appreciative of previous support from USAID and from its economic development contractor, AMIR. Abu Hammour had met with AMIR the previous week to discuss tax incentives to attract foreign direct investment (fdi). The GOJ is considering tax exemptions on customs duties for all products connected with fdi and perhaps income tax exemptions for certain periods for foreign investors. In addition, Abu Hammour wants to improve tax administration and financial management.

Iraqi Assets

¶14. (C) When asked about the status of the remaining frozen Iraqi assets, Abu Hammour replied that everything should be settled soon and that he hoped the final transfer of the balance of assets would create a good starting point for Jordan's relations with the in-coming Iraqi government. He asserted that he had the sense from his Iraqi contacts that some Iraqis were indeed starting to believe that the U.S. had come to Iraq to help Iraqis. In addition to the \$250 million in Iraqi assets already transferred to the Development Fund for Iraq, Abu Hammour hoped that the remaining claims could be processed by the end of June and that the remaining balance could be transferred in "very early July."

15 (C) On the \$1.3 billion trade protocol claim in the Central Bank of Jordan (CBJ), Abu Hammour said that there had been no progress in talks with the Iraqis. It was clear the trade protocol which had generated those funds had predated any sanctions against Iraq, going back to the early 1980's. Abu Hammour continues to be concerned that the CBJ's external auditor will force the bank to write off the amount, thereby forcing the Finance Ministry to recapitalize the CBJ. Abu Hammour hoped the two sides could instead agree to resolve the issue over a period of time.

COMMENT

¶16. (C) Although in this case we are only hearing Abu Hammour's side of the budget process, we have little reason to doubt that the Planning Minister and others continue to press the Finance Ministry to increase government spending. Abu Hammour's ability, so far, to resist these pressures helps explain why the IMF is so impressed by his achievements as Finance Minister. Indeed, Jordan has been able to ride out the economic dislocations of the past year and a half remarkably well, thanks both to wise economic leadership and financial support from the U.S. and other regional partners of Jordan. Jordan's challenge will be to continue its economic reforms and attract foreign investment to help wean itself off of foreign assistance.

¶17. CPA BAGHDAD minimize considered.

GNEHM